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IN THE

# Supreme Court of the United States

IMPRESSION PRODUCTS, INC.,

*Petitioner,*

*v.*

LEXMARK INTERNATIONAL, INC.,

*Respondent.*

*On a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit*

## BRIEF OF ASSOCIATION OF SERVICE AND COMPUTER DEALERS INTERNATIONAL, INC./NORTH AMERICAN ASSOCIATION OF TELECOM DEALERS AND OWNERS' RIGHTS INITIATIVE AS *AMICI CURIAE* IN SUPPORT OF PETITIONER

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## QUESTIONS PRESENTED

In *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013), the Court held that textbooks manufactured and first sold abroad, which bore legends to the effect of "Not for sale in the United States," could lawfully be imported and resold in the U.S. under the first sale doctrine. This case presents essentially the same issues under patent law:

1. Whether "conditional sale" of a patented item—a sale that transfers ownership while purportedly imposing restrictions, much like the "Not for sale in the United States" legends in *Kirtsaeng*—trumps patent exhaustion.

2. Whether the principles underlying the holding in *Kirtsaeng*—that the first sale doctrine is based on common law's abhorrence of restraints on alienation and makes no geographical distinctions—apply with equal force in the patent arena.

## TABLE OF CONTENTS


| | Page |
|---|---|
| QUESTIONS PRESENTED | i |
| TABLE OF AUTHORITIES | iv |
| STATEMENT OF INTEREST | 1 |
| SUMMARY OF ARGUMENT | 2 |
| ARGUMENT | 4 |
| I. COMPUTERS, DVDs AND OTHER PRODUCTS ARE ENTWINED IN PATENTS | 5 |
| II. ASCDI AND ORI'S CONSTITUENCIES RELY ON AVAILABILITY OF PATENTED PRODUCTS | 8 |
| A. Users of NAND Flash Memory | 8 |
| B. Users of Hard Drives | 10 |
| C. Users of Other Tech Products | 12 |
| D. Users of Defense Systems | 14 |
| E. Users of DVDs and Blu-ray Discs | 15 |
| F. Users of Consumer Products | 17 |

*Page*

III. THE COURT SHOULD REAFFIRM A BRIGHT-LINE RULE OF PATENT EXHAUSTION ..... 18

A. A Bright-Line Rule Is Consistent with Intuitive Reasoning and Aligns with *Kirtsaeng* ..... 18

B. The Federal Circuit's Approach Is Impractical and Also Inconsistent with the Court's Precedents ..... 20

C. Conditional Sales Interfere With Ownership Rights ..... 21

D. Do Not Count on Rights Holders To Exercise Restraint ..... 23

CONCLUSION ..... 24

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## STATEMENT OF INTEREST

The questions presented have enormous practical implications for the organizations represented in this brief and the constituencies they serve.[1] *Amicus curiae* Association of Service and Computer Dealers International, Inc./North American Association of Telecom Dealers ("ASCDI") is a trade group of nearly 300 small-to-medium technology companies.[2] ASCDI members deal in technology products that practice U.S. patents, are often acquired overseas, and support technology users across America.

*Amicus curiae* Owners' Rights Initiative ("ORI") is a broad coalition that seeks to protect ownership rights in personal property.[3] ORI's members include nonprofits such as the American Library Association, the Association of Research Libraries and Goodwill Industries International, Inc. ("Goodwill Industries"); companies such as eBay Inc. ("eBay"), Redbox Automated Retail, LLC ("Redbox") and Radwell International Inc.; and trade groups

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[1] This brief is filed with the written consent of the parties pursuant to Supreme Court Rule 37.3(a). Petitioner consented in an email sent to counsel for *amici curiae*; respondent filed a blanket consent on December 16, 2016. Pursuant to Rule 37.6 the *amici curiae* submitting this brief and its counsel represent that no party to this case or its counsel authored this brief in whole or in part, and no person other than *amici curiae* and its counsel paid for or made a monetary contribution toward the preparation and submission of this brief.

[2] *See* www.ascdi.com.

[3] *See* www.ownersrightsinitiative.org.

such as United Network Equipment Dealers Association and ASCDI.

## SUMMARY OF ARGUMENT

The bright-line rule of patent exhaustion advocated by petitioner is crucial to everyone in the U.S. who relies on technology products. Technology products are entwined in patents; the average smartphone, for example, is covered by approximately 250,000 patents.[4] The products are often traded in secondary markets, and cross international borders, before they land with the "end users."[5] This trade is essential to keep supplies flowing and computers running, especially in times of shortage.

Case in point: "NAND flash memory," a type of memory used in smartphones, tablets and computer servers.[6] As of January 2017, NAND flash memory

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[4] *See* SEC Form S-1 filed on Sept. 2, 2011 by RPX Corporation, a company providing patent services, http://www.sec.gov/Archives/edgar/data/1509432/000119312511240287/ds1.htm#toc226103_11.

[5] *See* Stephen J. Bigelow, *Secondary-Market Resellers Thrive in the Tech Industry*, TECHTARGET (Apr. 2008), http://searchitchannel.techtarget.com/feature/Secondary-market-resellers-thrive-in-the-tech-industry.

[6] NAND flash memory is a type of computer memory that does not require power to retain data, and unlike conventional hard drives has no moving parts. *See NAND flash memory*, TECHTARGET, http://whatis.techtarget.com/definition/NAND-flash-memory.

is in short supply.[7] To alleviate the shortage, end users across America are relying on ASCDI members to source NAND flash products overseas and import them to the U.S. However, a thicket of patents surrounds NAND flash products.[8] If the decision by the Federal Circuit Court of Appeals[9] is affirmed, and rights holders emerge from the thicket and claim patent infringement, this vital supply channel will be threatened.[10]

It is ironic that Lexmark advocates for conditional sales and against international exhaustion when

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[7] *See* Editor, *Shortage of NAND Flash to Cause Prices of SSDs and EMMCs to Rise by Over 10% in Q1 2017*, CTIMES (Dec. 12, 2016), https://en.ctimes.com.tw/DispNews.asp?O=HK0CC93KN2SSAA00NO; Gina Roos, *Supply Shortage of NAND Flash Worsens in Q4*, EPS NEWS (Oct. 12, 2016), https://epsnews.com/2016/10/12/supply-shortage-nand-flash-worsens-q4/ (two of the numerous trade articles about the NAND flash memory shortage).

[8] *See NAND Flash patents*, FRESH PATENTS, http://tgs.freshpatents.com/Nand-Flash-bx1.php (list of patent applications related to NAND flash memory); Daniel Siegal, *Ex-Weil Attys DQ'd By Micron In Flash Memory Patent Fight*, LAW360 (May 18, 2015), https://www.law360.com/articles/657395/ex-weil-attys-dq-d-by-micron-in-flash-memory-patent-fight (referencing multiple patents related to NAND flash memory).

[9] *Lexmark International, Inc. v. Impression Products, Inc.*, 816 F.3d 721 (Fed. Cir. 2016).

[10] *See* Stefan M. Meisner & James Buchanan Camden, *Supreme Court Will Spill Some Ink Regarding Patent Exhaustion Doctrine*, NAT'L L. REV. (Dec. 28, 2016), http://www.natlawreview.com/article/supreme-court-will-spill-some-ink-regarding-patent-exhaustion-doctrine.

the company, its counsel Sidley Austin LLP, and major Lexmark customers rely on secondary market trade in patented products to support their computer systems. So do countless other end users across America.

The Court has consistently enabled such trade by establishing clear boundaries between ownership rights and intellectual property ("IP") rights. In copyright law under cases such *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013), and in patent law under cases such as *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617 (2008) and *Bowman v. Monsanto Co.*, 133 S. Ct. 1761 (2013), the Court has held that an authorized sale exhausts IP rights in the item being sold. This intuitive and easy-to-apply rule allows products to move through commerce to where they are needed, and to be put to use, without fear of reprisal by IP rights-holders. ASCDI and ORI respectfully urge the Court to reaffirm the exhaustion rule in the contexts presented here.

## ARGUMENT

The decision by the Federal Circuit Court of Appeals clouds title to countless items and gives patent holders the right to restrict supply of essential technology products. This approach to patent exhaustion is fraught with danger, especially in times of shortage. ASCDI and ORI urge the Court to reaffirm a bright-line rule of patent exhaustion, unencumbered by international borders and

shrink-wrap conditions, because such rule is consistent with *Quanta*, *Bowman* and *Kirtsaeng*, and enables organizations and consumers to obtain the products they need.

## I. COMPUTERS, DVDs AND OTHER PRODUCTS ARE ENTWINED IN PATENTS

Every major technology product in demand today exists amidst a thicket of patents. The smartphone, entangled in 250,000 patents, is the quintessential example,[11] but countless other technology products are subject to active patents. In 2016 alone, the U.S. Patent & Trademark Office ("USPTO") issued an average of more than 25,000 patents per month.[12] Nearly all of the top twenty patent recipients were technology companies.[13]

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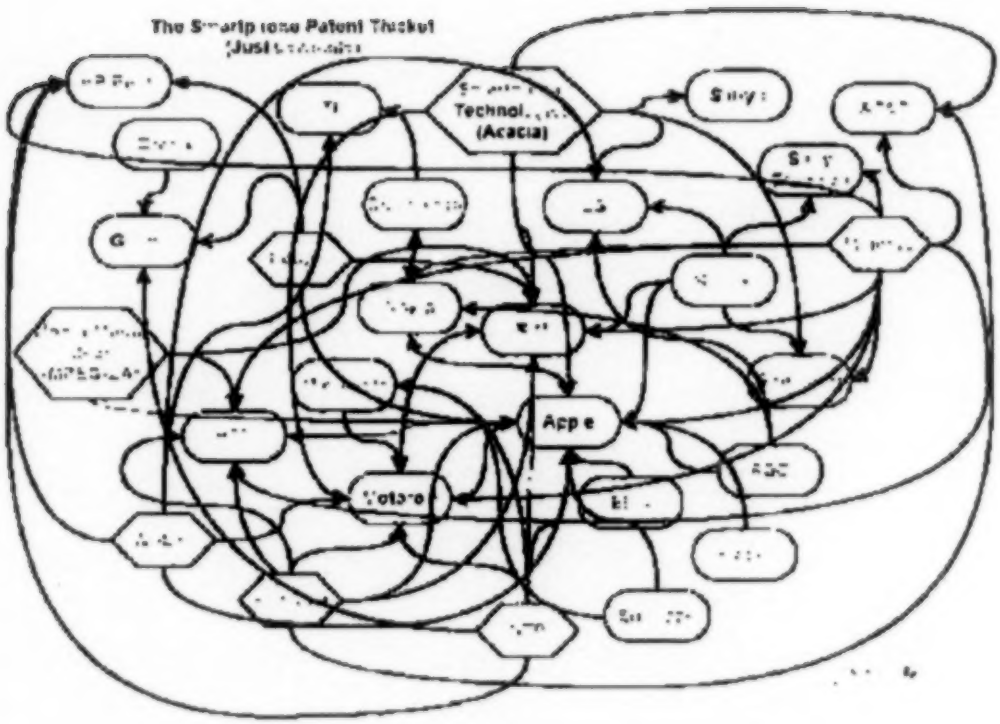
[11] *See* Mike Masnick, *There Are 250,000 Active Patents That Impact Smartphones; Representing One In Six Active Patents Today*, TECHDIRT (Oct. 8, 2012), https://www.techdirt.com/blog/innovation/articles/20121017/10480520734/there-are-250000-active-patents-that-impact-smartphones-representing-one-six-active-patents-today.shtml (includes the illustration reproduced in the brief of the smartphone patent thicket).

[12] *See* Tom Kivett, *IFI CLAIMS Announces 2016 U.S. Patent Ranking*, IFI CLAIMS PATENT SERVICES (Jan. 6, 2017), http://www.ificlaims.com/index.php?page=news&type=view&id=ifi-claims%2Fifi-claims-announces_7 (stating that USPTO issued 304,126 utility patents in 2016).

[13] *See* Ann Bednarz, *IBM Scores Most Patents in 2016, Apple Just Misses Top Ten*, NETWORK WORLD (Jan. 9, 2017), http://www.networkworld.com/article/3155506/data-center/ibm-scores-most-patents-in-2016-apple-doesnt-crack-top-10.html.




As a result, for most technology products it is functionally impossible to identify all of the patent holders and what they claim, yet for someone who gets caught in the thicket the risks are enormous:

> Searching patents is prohibitively costly and inconclusive, yet the risks of inadvertent infringement are substantial, including injunction, disproportionate damages or an order barring importation from the International Trade Commission.[14]

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[14] *See* Editor, *Too Many Patents*, PATENT PROGRESS, http://www.patentprogress.org/systemic-problems/too-many-patents/; Richard Waters, *Technology: Mired in a Legal Morass*, FINANCIAL TIMES (May 9, 2012), https://www.ft.com/content/5564b9f6-99b9-11e1-8fce-00144feabdc0.

Besides smartphones, myriad everyday items are entwined with patents—for example DVDs,[15] video games[16] and cameras.[17] Another example is the wristwatch,[18] a product type that came before the Court in *Omega S.A. v. Costco*,[19] a first sale doctrine case that was a predecessor to *Kirtsaeng*.[20] Even books can implicate patents in how they are bound and covered.[21]

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[15] *See* DVD6C Licensing Group, http://www.dvd6cla.com/list.html (referencing some of the many DVD patents).

[16] *See* Ben Kuchera, *Patents on Video Game Mechanics Strangle Innovation, Fun,* ARS TECHNICA (Mar. 9, 2008), http://arstechnica.com/gaming/2008/03/patents-on-video-game-mechanics-may-strangle-innovation.

[17] *See* Steve Brachmann, *The Evolution of Digital Cameras—A Patent History,* IPWATCHDOG (Oct. 28, 2014), http://www.ipwatchdog.com/2014/10/28/the-evolution-of-digital-cameras-a-patent-history/id=51846/.

[18] *See, e.g.,* Design Patent, *The Rolex Watch Design Patent,* http://www.patentadesign.com/gallery/rolex-watch-design-patent.html; Justia, *Patents by Assignee Timex Corporation,* http://patents.justia.com/assignee/timex-corporation; Dale Vito, *IN THE WORKS: Omega's High Tech Bezel,* WATCHBASE (Dec. 6, 2016), http://watchbase.com/blog/2016/12/06/in-the-works-omegas-high-tech-bezel/ (discussing a patent application for an Omega watch).

[19] 541 F.3d 982 (9th Cir. 2008), *aff'd* in an equally-divided *per curium* decision, (no. 08-1423).

[20] *See* Doug Kari, *How an eBay Bookseller Defeated a Publishing Giant at the Supreme Court,* ARS TECHNICA (Nov. 25, 2014), http://arstechnica.com/tech-policy/2014/11/how-an-ebay-bookseller-defeated-a-publishing-giant-at-the-supreme-court.

[21] *See* Justia, *Bookbinding: Process And Apparatus Patents (Class 412),* http://patents.justia.com/patents-by-us-classification/412.

The point is that in today's technology-laden world, patents have become ubiquitous and in many cases impenetrable.

## II. ASCDI AND ORI'S CONSTITUENCIES RELY ON AVAILABILITY OF PATENTED PRODUCTS

The constituencies of ASCDI and ORI—and by extension, virtually all people and organizations in America—rely on availability of technology goods and other patented products. As a practical matter, those products are often traded in secondary markets and cross international borders before they reach the end users.[22] Following are examples of the constituencies who benefit from this.

### A. Users of NAND Flash Memory

Many Americans have never heard of NAND flash memory, yet most carry it within reach. NAND flash is a type of memory found in tablets, USB drives and smartphones.[23] According to Pew Research, some 68 percent of U.S. adults own a smartphone and 45 percent own a tablet.[24] NAND

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[22] *See* Bigelow, *supra* n.5. *See also* Andy Geldman, *The World's Top eBay Sellers*, WEB RETAILER (Jul. 19, 2016), http://www.webretailer.com/lean-commerce/worlds-top-ebay-sellers/ (top 100 eBay sellers include dealers in computers, watches and DVDs).

[23] *See* Roos, *supra* n.7.

[24] Monica Anderson, *Technology Device Ownership: 2015*, PEW RESEARCH CENTER (Oct. 29, 2015), http://www.pewinternet.org/2015/10/29/technology-device-ownership-2015/.

flash memory is also utilized in many computer servers, especially in solid state drives that hold valuable data.[25]

However, starting in the summer of 2016, a shortage developed of NAND flash, due to a surge in demand for smartphones, especially the iPhone 7, and solid state drives used in servers.[26] As a result, ASCDI members began acquiring NAND flash products in overseas markets. Here is a sampling of end users in the U.S. who benefitted from that trade:[27]

| | |
|---|---|
| **National Center for Genome Resources** | **Santa Fe, NM** |
| **Advocate Christ Medical Center** | **Oak Lawn, IL** |
| **City of Paso Robles** | **Paso Robles, CA** |
| **Numeric Investors** | **Marlborough, MA** |

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[25] *See* Kingston, *NAND Flash Technology and Solid State Drives (SSDs),* https://www.kingston.com/us/community/articledetail/articleid/12.

[26] *See* Robert Castellano, *A Shortage of NAND Flash Memory Is Coming Soon—What Caused It and What Will Be Its Impact,* SEEKING ALPHA (May 16, 2016), http://seekingalpha.com/article/3975215-shortage-nand-flash-memory-coming-soon-caused-will-impact.

[27] This list, compiled by ASCDI's membership, represents a sampling of end users who received shipments of solid state drives that were acquired overseas in the secondary market, imported to the U.S. and shipped to end users in the latter half of 2016. All of these shipments are evidenced by packing lists that show the products shipped and the recipients.

| | |
|---|---|
| **Flightsafety Services Corp.** | **Centennial, CO** |
| **YMCA of Long Island** | **Glen Cove, NY** |

This is only a sampling—there are numerous other end users in the U.S. who have received NAND flash products that were acquired through international, secondary-market trading. However, because NAND flash exists in a thicket of patents,[28] the limitations on patent exhaustion imposed by the Federal Circuit threaten that trade. ASCDI members and their customers should not have to risk patent infringement liability for reaching overseas to find the NAND flash products that they need. *See Kirtsaeng*, 133 U.S. at 1365 (applying a geographical limitation to the first sale doctrine would subject trade in copyrighted items to "the disruptive impact of the threat of infringement suits").

### B. Users of Hard Drives

Five years ago Thailand was battered by typhoons—it was the worst monsoon season in half-a-century. As seen below, floodwaters inundated the industrial zone in Thailand where most of the world's hard drives are manufactured:[29]

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[28] *Supra* n.8.

[29] Photo by Thomas Fuller. *See* Thomas Fuller, *Thailand Flooding Cripples Hard-Drive Suppliers*, NY TIMES (Nov. 6, 2011), http://www.nytimes.com/2011/11/07/business/global/07iht-floods07.html.

As the shortage intensified, ASCDI members scoured overseas markets to find hard drives for their U.S. customers. Following are a few of the end users who benefitted from that trade:[30]

| | |
|---|---|
| **U.S. Navy— Strategic Systems** | **Washington, D.C.** |
| **N.Y. Museum of Modern Art** | **New York, NY** |
| **VA Medical Center** | **Dayton, OH** |
| **Underwriters Laboratories** | **Northbrook, IL** |

[30] This list, compiled by ASCDI's membership, represents a sampling of end users who received shipments of hard drives that were acquired overseas in the secondary market, imported to the U.S. and shipped to end users during late 2011 or early 2012, during the time of the worldwide hard drive shortage. All of these shipments are evidenced by packing lists that show the products shipped and the recipients.

| | |
|---|---|
| **Vassar College** | **Poughkeepsie, NY** |
| **The Nature Conservancy** | **Arlington, VA** |

Again, this is only a sampling of the many American end users who received gray-market hard drives in a time of shortage. But hard drives are subject to numerous patents; the largest patent verdict in history involved hard drives.[31] Enforcement of the restrictions advocated by Lexmark would have imperiled this supply channel during what was, in the technology world, a time of crisis.

### C. Users of Other Tech Products

Many other patented technology products move through secondary markets to end users in the U.S. Ironically, those products sometimes end up benefitting organizations that oppose gray market trade. Examples of this include:

| | |
|---|---|
| **Lexmark International Inc.** | **Lexington, KY** |

Lexmark has received hard drives, host bus adapters, PCI cards, port replicators and other items traded in secondary markets.[32]

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[31] *See* Joe Mullin, *Chipmaker Hopes to Overturn Largest Patent Verdict Ever: $1.5 Billion*, ARS TECHNICA (Apr. 10, 2015), http://arstechnica.com/tech-policy/2015/04/chipmaker-hopes-to-overturn-largest-patent-verdict-ever-1-5-billion.

[32] This list, compiled by ASCDI's membership, represents products that were acquired in secondary markets, mostly overseas, and shipped to Lexmark International, Inc. All of

**Sidley Austin LLP** **Chicago, IL**

Counsel for Lexmark has received servers, hard drives, memory, daughter cards, DVD-ROMs and other items traded in secondary markets.[33]

**John Wiley & Sons, Inc.** **East Millstone, NJ**

Respondent in *Kirtsaeng* has received storage controllers, PCI cards, memory, host bus adapters and other items traded in secondary markets.[34]

Additionally, major customers of Lexmark[35] rely on international, secondary market trade in patented technology products to keep their com puter systems operational. There are many example of this—below are just a few:[36]

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these shipments are evidenced by packing lists that show the products shipped and the recipient.

[33] This list, compiled by ASCDI's membership, represents products that were acquired in secondary markets, mostly overseas, and shipped to Sidley Austin LLP. All of these shipments are evidenced by packing lists that show the products shipped and the recipient.

[34] This list, compiled by ASCDI's membership, represents products that were acquired in secondary markets, mostly overseas, and shipped to John Wiley & Sons, Inc. All of these shipments are evidenced by packing lists that show the products shipped and the recipient.

[35] *See* Featured Customers, *167 Lexmark Case Studies*, https://www.featuredcustomers.com/vendor/lexmark-2/case-studies (case studies involving Lexmark customers).

[36] This list, compiled by ASCDI's membership, represents shipments of products that were acquired in secondary mar-

| | |
|---|---|
| **Ardent Health Systems** | **Brentwood, TN** |
| **U.S. Army** | **Winchester, VA** |
| **Columbia Sportswear** | **Portland, OR** |
| **Methodist Hospital** | **Brooklyn, NY** |
| **Loyola University** | **Baltimore, MD** |
| **Cummins Inc.** | **Columbus, IN** |

In other words, Lexmark advocates for crushing restrictions on gray market trade, while disregarding that its customers, its counsel and its own personnel utilize gray market products to keep their computer systems running.

### D. Users of Defense Systems

Availability of spare parts is vital for national defense. Because many defense systems continue to use older technology, defense contractors are sometimes "desperate to find the parts they need."[37] ASCDI members such as XS International, Inc. in Alpharetta, Georgia, and Sotel Systems LLC in Maryland Heights, Missouri, supply refurbished technology products to every branch of the military

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kets, mostly overseas, and shipped to Lexmark customers. All of these shipments are evidenced by packing lists that show the products shipped and the recipient.

[37] Benj Edwards, *If It Ain't Broke, Don't Fix It: Ancient Computers in Use Today*, PC WORLD (Feb. 19, 2012), http://www.pcworld.com/article/249951/if_it_aint_broke_dont_fix_it_ancient_computers_in_use_today.html.

and most major defense contractors. Sometimes the only way for them to find these older parts is to acquire products that were first sold overseas. Encumbering overseas products with unexhausted patent rights threatens this mission-critical source of supply.

### E. Users of DVDs and Blu-ray Discs

DVDs exist amidst a thicket of patents, with claimants such as Hitachi, Sanyo, Toshiba, Sony, Phillips, Pioneer and others.[38] Blu-ray discs[39] and video games[40] also implicate numerous patents. Many of these products are produced at manufacturing plants overseas[41] and move through commerce via international trading platforms provided by companies such as eBay (an ORI member) and Amazon.[42] The constituencies who buy and sell on these trading platforms need a clear and workable rule, not a rule that requires them to investigate

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[38] *See* DVD6C Licensing Group, *DVD Patent Joint Licensing Program Frequently Asked Questions*, http://www.dvd6cla.com/faq.html.

[39] *See* Blog, *Patent Pool One-Blue and Several Licensors File Suit Against Imation Over Blu-ray Patents*, ESSENTIAL PATENT BLOG (May 24, 2013), http://www.essentialpatentblog.com/2013/05/patent-pool-one-blue-and-several-licensors-file-suit-against-imation-over-blu-ray-patents/.

[40] *See* Kuchera, *supra* n.16.

[41] *See, e.g.*,Wikipedia, *Sony Digital Audio Disc Corporation*, https://en.wikipedia.org/wiki/Sony_Digital_Audio_Disc_Corporation (listing manufacturing plants).

[42] *See* Geldman, *supra* n.22.

the place of first sale and whether there was a conditional sale, on pain of being sued for patent infringement.

Libraries in the U.S. also provide DVDs and Blue-ray discs to their constituencies, lending approximately two million units per day.[43] ORI member American Library Association, which represents some 57,000 libraries nationwide,[44] focuses special attention on reaching underserved populations such as rural and native communities, older adults and people of color.[45] The movies collected by its member libraries include not only mainstream titles but also many foreign films.[46] Companies such as Redbox, another ORI member, also lend millions of DVDs, Blue-ray discs and video games to customers nationwide.[47]

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[43] *See* Blog, *Libraries Lend More Movies Than Netflix, Study Finds*, HUFFINGTON POST (Jul. 30, 2010), http://www.huffingtonpost.com/2010/07/30/libraries-lend-more-movie_n_664989.html.

[44] American Library Ass'n, *ALA Annual Membership Statistics*, http://www.ala.org/membership/membershipstats_files/annual_memb_stats.

[45] *See* America Library Ass'n, *Outreach to Underserved Populations*, http://www.ala.org/advocacy/diversity/outreach-tounderservedpopulations.

[46] *See* Kim Velsey, *Study: Libraries Top The Competition In Lending Movies*, HARTFORD COURANT (Jul. 26, 2010), http://articles.courant.com/2010-07-26/business/hc-library-movies-0726-20100725_1_library-services-library-circulation-higher-circulation-rate.

[47] Redbox rents movies and games at approximately 35,000 locations in the U.S. *See* Redbox.com, *Facts About Redbox*, http://www.redbox.com/facts.

These constituencies cannot reasonably be expected to navigate through a thicket of patents in deciding which discs they can lend and borrow, versus which are tainted by patent restrictions. *See Kirtsaeng*, 133 S. Ct. at 1364 ("How, the American Library Association asks, are the libraries to obtain permission to distribute these millions of books?") They need a user-friendly rule: Once there has been an authorized sale, patent rights in that item have been exhausted, and the item can be distributed without fear of infringement liability.

### F. Users of Consumer Products

Many other consumer products, such as cameras,[48] watches[49] and home appliances,[50] are implicated by patents. Again, these products often move through commerce via trading platforms such as eBay and Amazon.[51] *See id.* at 1365 ("Retailers tell us that over $2.3 trillion worth of foreign goods were imported in 2011"). Then, as the products age, some are donated to charity. The buyers and sellers of these patented products, the trading platforms on which they do business, charities such as ORI member Goodwill Industries, and the constituen-

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[48] *See* Brachmann, *supra* n.17.

[49] *Supra* n.18.

[50] *See* Steve Brachmann, "*Inventing for Convenience –Whirlpool Focuses on Optimizing Home Appliances*, IPWATCHDOG (Jan. 19, 2015), http://www.ipwatchdog.com/2015/01/19/whirlpool-focuses-on-optimizing-home-appliances/id=53760/.

[51] *See* Bigelow, *supra* n.5; Geldman, *supra* n.22.

cies they serve, need a rule of patent exhaustion that can readily be applied to everyday transactions. They cannot reasonably be expected to assess the patent-exhaustion status of every item that changes hand.

## III. THE COURT SHOULD REAFFIRM A BRIGHT-LINE RULE OF PATENT EXHAUSTION

ASCDI and ORI concur in the legal analysis offered by petitioner Impression Products, Inc., and will not restate that analysis here. However, four points are worth emphasizing in the context of *amici* and the constituencies they serve.

### A. A Bright-Line Rule Is Consistent with Intuitive Reasoning and Aligns with *Kirtsaeng*

Most owners of technology products and other patented goods have an intuitive sense of where the boundaries lie between IP rights and ownership rights. For example, an eBay user who buys a DVD that was originally sold in Canada presumably knows that he has not acquired manufacturing rights, but probably assumes that he can use his copy of the game in the U.S. and later loan it to a friend. A traveler who buys a watch in Switzerland has no reason to think that she is entitled to sell knockoffs, but probably believes that she can bring the watch back to the U.S. without it being seized as contraband.

However, prior to *Kirtsaeng*, uncertainty existed under copyright law about owners' rights to engage in such intuitively-reasonable transactions.[52] The Court in *Kirtsaeng*, by affirming a rule of exhaustion without geographical limitation, struck the proper balance between copyright and ownership.[53] The opinion by Justice Stephen Breyer garnered praise and there has been no legislation introduced in Congress to undercut it.[54] Put simply, the rule works. ASCDI and ORI respectfully submit that the same intuitive rule should be applied in the context of patent exhaustion.

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[52] *See* Jennifer Waters, *Your Right To Resell Your Own Stuff Is In Peril*, MARKET WATCH (Oct. 12, 2012), http://www.marketwatch.com/story/your-right-to-resell-your-own-stuff-is-in-peril-2012-10-04; Marvin Ammori, *If You've Ever Sold a Used iPod, You May Have Violated Copyright Law*, THE ATLANTIC (Jun. 8, 2012), http://www.theatlantic.com/national/archive/2012/06/if-youve-ever-sold-a-used-ipod-you-may-have-violated-copyright-law/258276/.

[53] *See* Mike Masnick, *Supreme Court Gets It Right In Kirtsaeng: You Can Resell Things You Bought Abroad Without Infringing*, TECHDIRT (Mar. 19, 2013), https://www.techdirt.com/articles/20130319/08094922377/supreme-court-gets-it-right-kirtsaeng-you-can-resell-things-you-bought-abroad-without-infringing.shtml.

[54] *See, e.g.*, Editorial, *The Limits of Copyright Law*, LA TIMES (Mar. 20, 2013), http://articles.latimes.com/2013/mar/20/opinion/la-ed-copyright-kirtsaeng-supreme-court-20130320; Gary Shapiro, *Supreme Court Gives American Consumers Victory Over Copyright Owners in Kirtsaeng vs. John Wiley & Sons*, FORBES (Mar. 20, 2013), http://www.forbes.com/sites/garyshapiro/2013/03/20/supreme-court-gives-american-consumers-victory-over-copyright-owners-in-kirtsaeng-vs-john-wiley-sons.

### B. The Federal Circuit's Approach Is Impractical and Also Inconsistent with the Court's Precedents

Technology products contain many components; the smartphone is a prime example. It has "big parts" such as the on/off switch, processor (aka CPU), memory (aka RAM) and at least a dozen other items,[55] and also "small parts" such as capacitors, diodes, resistors and transistors.[56] Each of these parts is layered in patents.[57] With so many parts and so many patents, as a practical matter, who can say whether a given diode or resistor was first sold domestically or abroad, and what conditions one of the patent holders may have purported to impose?

In past cases, the Court has avoided such quandaries by applying a bright-line rule of exhaustion. Under copyright law, as stated in *Kirtsaeng*, the first sale doctrine "frees courts from the adminis-

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[55] *See* Santosh Das, *Parts of a Mobile Cell Phone and Their Function (Big Parts)*, MobileCellPhoneRepairing.com (Aug. 18, 2015), http://www.mobilecellphonerepairing.com/parts-of-a-mobile-cell-phone-and-their-function-big-parts.html.

[56] *See* Santosh Das, *Small Parts/Electronic Components of Mobile Cell Phone and Their Function*, MobileCellPhoneRepairing.com (Aug. 18, 2015), http://www.mobilecellphonerepairing.com/small-parts-electronic-components-of-mobile-phone-and-their-function.html.

[57] *See* Masnick, *supra* n.11 and accompanying illustration.

trative burden of trying to enforce restrictions upon difficult-to-trace, readily moveable goods." 133 S. Ct. at 1363. Under patent law, the Court's recent cases articulate similar rationales; there is no hint of any policy or other reason why the doctrine of patent exhaustion should diverge. *See Quanta*, 533 U.S. at 625 ("the initial authorized sale of a patented item terminates all patent rights to that item"); *Bowman*, 133 S. Ct. at 1764 ("the authorized sale of a patented article gives the purchaser, or any subsequent owner, a right to use or resell that article"). ASCDI and ORI respectfully submit that the Court should take the same approach in the contexts presented here.

### C. Conditional Sales Interfere With Ownership Rights

As stated by one commentator, the Federal Circuit's decision is "dangerous in the way that it undercuts the notion of ownership and transfer of title." [58] For example, when a seller sells a computer, title passes to the buyer, and the buyer (now the owner) generally recognizes the computer as an asset on its books.[59] But what if the computer was originally sold with conditions—is it still a viable

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[58] *See* Dennis Crouch, *Can Patent Rights Overwhelm Traditional Notions of Title?*, PATENTLYO (Mar. 22, 2016), http://patentlyo.com/patent/2016/03/overwhelm-traditional-notions.html.

[59] *See* Jean Murray, *What is the Book Value of an Asset?*, THE BALANCE (May 7, 2016), https://www.thebalance.com/what-is-the-book-value-of-an-asset-398146.

asset?

Or suppose the owner wants to get asset-based financing. Typically the owner and a lender would enter into a loan agreement that grants the lender a security interest in the computer. In the event of default, the lender could exercise its security interest by liquidating the computer.[60] Again, what if the computer was originally sold with conditions—is it valid collateral?

In effect, the Federal Circuit has created a compromised category of personal property, with rights divided among the so-called owner and any patent holders who hold a continuing interest. Do you think you own your smartphone? Not so fast—patent holders may control your right of resale. This is a modern-day illustration of why the law has long disfavored restraints on alienation. *See Kirtsaeng*, 133 S. Ct. at 1364-66 (explaining why common law's reluctance to permit restraints on alienation remains relevant). A bright-line rule of patent exhaustion avoids such a morass by confirming that sale of a patented item is truly a sale, with the buyer gaining the full bundle of ownership rights. *See United States v. Univas Lens Co.*, 316 U.S. 241, 250 (1942) (holding that sale of a patented article "exhausts the monopoly in that article and the patentee may not thereafter, by virtue of his

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[60] *See* Robert A. Modansky, *Asset-Based Financing Basics*, JOURNAL OF ACCOUNTANCY (Jul. 31, 2011), http://www.journalofaccountancy.com/issues/2011/aug/20113992.html.

patent, control the use or disposition of the article").

### D. Do Not Count on Rights Holders To Exercise Restraint

As in *Kirtsaeng*, rights holders in this case may claim that the concerns expressed by interested parties such as ASCDI and ORI are hypothetical, and ask why the "horribles" have not happened yet. *See* 133 S. Ct. at 1366. The realistic answer is that the market has not caught on. Patent law is viewed as an arcane discipline, and the exhaustion cases have mostly involved recycling of patented products.[61] However, if Lexmark is willing to devote time and money in litigating against a small toner-recycling company such as Impression Products, imagine what patent holders will do if emboldened by a favorable decision of this Court.[62] They may profess an intention to exercise restraint, but to borrow from Justice Breyer in *Kirtsaeng*, "we are less sanguine." *Id.*

Access to essential technology products should not depend on the good graces of patent holders who may not have the best interests of American

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[61] *See, e.g., Jazz Photo Corp. v. Int'l Trade Comm'n*, 264 F.3d 1094 (Fed. Cir. 2001); *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992).

[62] *See* Doug Kari, *Op-Ed: Lexmark's War Against a Man Who Recycles Toner Cartridges*, ARS TECHNICA (Aug. 29, 2015), http://arstechnica.com/tech-policy/2015/08/op-ed-lexmarks-war-against-a-man-who-recycles-toner-cartridges/.

end users in mind. ASCDI, ORI and the constituencies they serve require the legal protection of a clear and workable exhaustion rule.

## CONCLUSION

The Federal Circuit's decision clouds title to countless patented items, and gives patent holders the right to interfere in trade that is vital for members of ASCDI, ORI and the constituencies they serve. The decision is unworkable as a practical matter, and unwarranted under *Quanta, Bowman, Kirtsaeng*, and other precedents. ASCDI and ORI respectfully urge the Court to reverse the decision and reaffirm a bright-line rule of patent exhaustion.

Dated: January 23, 2017

/S/ W. Douglas Kari
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